

February 4, 2003

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FEDERAL LEGISLATIVE UPDATE ON PRESIDENT'S PROPOSED BUDGET

On February 3, 2003, President Bush released his proposed \$2.23 trillion budget for Federal Fiscal Year (FFY) 2004, which begins on October 1, 2003. It includes a 10-year \$674 billion tax cut package and a projected four percent increase in discretionary spending. Under his proposed budget, the Federal budget deficit would total \$304 billion in FFY 2003 and \$307 billion in FFY 2004, as estimated by the Office of Management and Budget.

Congress first must enact the FFY 2003 appropriations bills which fund discretionary domestic programs before working on the FFY 2004 budget. These programs have been temporarily funded through continuing resolutions. An omnibus appropriations bill (H.J. Res. 2), which is pending Conference Committee action, would set FFY 2003 funding levels for all domestic programs. Because full-year FFY 2003 funding for discretionary domestic programs has yet to be enacted, the FFY 2003 spending levels in the Administration's budget documents released today assume the same levels as proposed by the President for FFY 2003.

Budget proposals of County interest are summarized below:

JUSTICE ASSISTANCE

The Bush Administration is proposing major reductions in justice assistance funding for state and local governments, including:

State Criminal Alien Assistance Program (SCAAP): The President once again proposes to eliminate SCAAP, which was funded at a level of \$565 million in FFY 2002.

Justice Accountability Incentive Block Grant (JAIBG): The President proposes to eliminate JAIBG, which was funded at a level of \$249 million in FFY 2002.

Justice Assistance Block Grant: The President proposes to consolidate the \$500 million Byrne block grant and \$400 million Local Law Enforcement Block Grant (LLEBG) into a new \$586 million Justice Assistance Block Grant.

Community Oriented Policing Services (COPS): The President proposes to fund the COPS program at \$164 million in FFY 2004, which is \$886 million below its FFY 2002 funding level. The COPS Hiring Grant program, which subsidizes the hiring of police officers, would be eliminated.

HEALTH

Medicaid/SCHIP Financing Option: The Administration proposes to provide states with a new option for Medicaid and State Children's Health Insurance Program (SCHIP) funding. Under current law, Medicaid funding is provided to states on an open-ended matching basis. Under SCHIP, states currently receive annual SCHIP allotments that they can draw down on a matching basis within three years.

Under the new proposal, states can opt to receive their Medicaid and SCHIP funds in two lump-sum annual allotments with one allotment for acute care and another for long-term care. Funding would be based on a state's level of spending in FFY 2002 on Medicaid and SCHIP, with increases each year based on a formula, which was not specified in the budget documents released to date. A state maintenance of effort (MOE) would be required based on state expenditures in FFY 2002, which would be inflated each year at a level that would be lower than the increase in Federal allotments. States would be able to transfer ten percent of their funding between each allotment. States would be required to provide a specified benefit package to current Medicaid beneficiaries whose coverage is mandated under current law, but would have greater flexibility in providing optional benefits without having to apply for a Federal waiver.

The Administration has not released detailed information or legislative language on this new financing option, which would require a statutory change to be implemented, and which could have major budgetary and program impacts on California's Medi-Cal program and the County's Department of Health Services. We expect that more detailed information will be available on February 6, 2003 when the House Energy and Commerce Committee holds a hearing on Medicaid restructuring.

Medicaid Home Care Demonstration: The President proposes a new initiative that gives states incentives to use home care instead of nursing homes for long term care beneficiaries. Under the five-year "Money Follows the Individual" demonstration, the Federal government would fully reimburse states for one year of Medicaid services for individuals who are moved from nursing homes to at-home care. After the initial year, states would resume receiving Medicaid funds at the normal matching rate. The estimated cost of the initiative would be \$1.75 billion over five years.

Transitional Medicaid Assistance: The President's budget includes \$2.4 billion over five years to extend Transitional Medicaid Assistance, which provides up to 12 months of extended Medicaid coverage for persons transitioning from welfare to work.

SCHIP: The Administration proposes to extend the availability of an estimated \$830 million in unused SCHIP funds that otherwise must be returned to the U.S. Treasury at the end of FFY 2003 because states will not have been spent those funds within the current statutory time limit. Under the Administration's proposal, those unspent SCHIP funds would remain available to states through FFY 2004.

Medicare Reform: The Administration's proposed budget would increase Medicare spending by about \$400 billion over ten years. The centerpiece of the proposal is to create prescription drug benefit and incentives for Medicare recipients to join private health plans. The new system would be similar to the current Federal Employees Health Benefit Program, which provides about nine million federal workers with a choice of private health plans. Current beneficiaries would be allowed to continue with their current arrangements if they so chose. Republicans and Democrats offered numerous Medicare prescription drug benefit proposals last year, but none had sufficient support to be enacted.

Ryan White AIDS: The President requests about \$2.01 billion for Ryan White AIDS programs in FFY 2004, which is \$100 million above the FFY 2002 level.

Community Health Centers: The President requests about \$1.627 billion for this program in FFY 2004, which is an increase of \$284 million above the FFY 2002 level.

Disease Prevention Initiative: The Administration is requesting \$125 million for a new initiative to prevent diabetes, obesity, and asthma through community initiatives. Under the "Steps to a HealthierUS" initiative, HHS would fund specific projects at the state and community level that would use proven medical and public health strategies to reduce the burden of those diseases. Projects under the initiative would include grants to states to craft programs supporting responsible health choices that would reduce the burden of preventable disease and grants to communities to promote and enable healthful choices, especially those focused on youth and older Americans.

Maternal and Child Health (MCH): The President requests \$751 million for MCH in FFY 2004, which is a \$19 million increase over FFY 2002.

Community Access Program (CAP): As in past years, the President proposes to eliminate CAP, which provides competitive grants to health systems to improve access for uninsured persons. The County was one of the first recipients of a CAP grant.

Substance Abuse/Mental Health Block Grants: The President requests \$1.785 billion for the Substance Abuse Block Grant, which is a \$50 million increase over FFY 2002. The Mental Health Block Grant would be frozen at its FFY 2002 level of \$433 million.

Addiction Treatment Vouchers: The Administration is proposing a three-year, \$600 million initiative to give vouchers to persons needing drug treatment. Funding of \$200 million would be available in the first year. The vouchers could be used at community-based treatment centers, including faith-based institutions.

HOMELAND SECURITY

The Administration requests \$41.3 billion for homeland security programs in FFY 2004, which is a 9.5 percent increase over its \$37.7 billion FFY 2003 budget request. About \$36.2 billion of the overall homeland security budget proposal would be for programs and operations of the new Department of Homeland Security.

First Responder Grants: The Administration requests \$3.5 billion for first responder grants in FFY 2004, the same amount as requested in FFY 2003. The delay in the appropriation and allocation of FFY 2003 first responder grant funds is likely to affect how much FFY 2004 funds are made available for such activities.

Hospital Preparedness: This program, which assists hospitals in upgrading their capacity to respond to bioterrorism, would be funded at \$518 million in FFY 2004, which is a \$383 million increase over FFY 2002.

Public Health Preparedness: The President proposes to continue the investment in restoring the nation's public health infrastructure by requesting \$940 million for state and local capacity building in FFY 2004, which is the same level as in FFY 2002.

HUMAN SERVICES

Temporary Assistance to Needy Families (TANF): The Administration is re-submitting the same TANF reauthorization proposal that it made last year. Funding would continue to be frozen at the \$16.5 billion level annually. The proposal also would require 40 hours of work activities for recipients, among other new requirements.

Child Care: The Administration proposes level funding of the Child Care and Development Block Grant. The discretionary portion would be funded at \$2.090 billion and the entitlement portion at \$2.717 billion in FFY 2004.

Social Services Block Grant (SSBG): The Administration proposes \$1.7 billion for SSBG in FFY 2004, the same level as in FFY 2002.

Foster Care Independence: The Administration requests \$200 million in FFY 2004 for the Independent Living Program, which assists foster youth in making the transition from foster care to independence. This proposal includes \$140 million in mandatory funding, the same level as in FFY 2003, and \$60 million for a new discretionary initiative to provide education and training vouchers to youth aging out of the foster care system.

Promoting Safe and Stable Families: The President requests \$505 million in FFY 2004 for this program which funds family preservation and other services aimed at preventing family crises that would require a child's removal from his or her home. This budget request represents a \$130 million increase over FFY 2002.

Community Services Block Grant (CSBG): The President requests \$495 million in CSBG funding in FFY 2004, which is \$155 million less than in FFY 2002.

Older Americans Act (OAA): The President requests about \$1.35 billion in overall OAA funding in FFY 2004, which is approximately the same level as in FFY 2002.

WORKFORCE INVESTMENT ACT (WIA)

The Administration indicates that it will be proposing a major restructuring of Workforce Investment Act (WIA) programs, which must be reauthorized for FFY 2004. The proposed restructuring would include consolidating the current separate Adult, Youth, and Dislocated Worker Block Grant programs into a single block grant to states. It is not wholly clear how the President's proposed FFY 2004 program funding levels for these WIA programs would compare to the FFY 2002 program funding levels, based on the budget materials released by the Administration.

ELECTION REFORM

The President is requesting \$500 million for FFY 2004 to help state and local governments to update their voting equipment and to implement other election reforms authorized under the Help America Vote Act of 2002 (P.L. 107-252). His proposed FFY 2003 budget requested \$400 million for this new program.

HOUSING AND URBAN DEVELOPMENT

Community Development Block Grant (CDBG): The President proposes to fund

CDBG formula grants at \$4.429 billion in FFY 2004, which is \$88 million more than in FFY 2002.

Housing Investment Partnership Program (HOME): The President is requesting nearly \$2.2 billion for HOME in FFY 2004, compared to its FFY 2002 level of \$1.846 billion.

Homeless Assistance Grants: The President proposes to consolidate three current homeless assistance programs into a single grant, which would be funded at \$1.325 billion in FFY 2004, compared \$1.123 billion in FFY 2002.

Housing Assistance for Needy Families: The Administration proposes to convert the Section 8 Housing Choice Voucher Program into a state-run block grant called Housing Assistance for Needy Families (HANF). States would be given flexibility over the use of HANF funds, including the discretion to not use public housing authorities which currently administer Section 8 funds.

TRANSPORTATION

The Administration proposes \$25 billion in highway funding in FFY 2004, more than 20 percent below the FFY 2002 amount of \$31.8 billion, the last Congressionally enacted spending level. Because annual highway funding is tied to gasoline tax revenues, increasing spending above the President's budget request may require an increase in the gasoline tax of 18.4 cents a gallon. Many Congressional leaders oppose any increase in the gasoline tax.

The proposed cut of nearly \$7 billion will likely affect the upcoming reauthorization of the surface transportation law (Public Law 105-178), known as "TEA-21." The Administration argues that it is required by the TEA-21 law to tie the level of spending to the level of revenue. There are likely to be efforts to change this linkage in a manner that would allow annual highway spending to increase.

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We will continue to keep you advised of any new developments.

DEJ:GK

RT:TJ:MT:md

c: Executive Officer, Board of Supervisors
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